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Focus on Asia: Vladivostok — A Work in Progress

By Andrew Klebanow | Co-Founder of C3 Gaming

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It has been over 14 years since Russian legislators passed regulations designating four regions within the Russian Federation as suitable locations to host casino gambling. Of those, the Primorye region in far eastern Russia was considered a near ideal location for development of integrated resorts, and was one favored by Prime Minister Vladimir Putin. A site north of the city of Vladivostok was subsequently identified, and the federal government moved forward with the development of an integrated entertainment zone (IEZ) that would include up to 12 casino-resorts, a variety of non-gaming hotels, convention and meeting space, outdoor recreation and a water park.



The Vladivostok region was long viewed as ideal for integrated casino resort development. Vladivostok sits on the far eastern point of Russia, on the Golden Horn Bay of the Sea of Japan. Until the early 1990s, the city and the surrounding region had been closed to foreigners due to its location proximate to sensitive military installations. It was only in the last 30 years that the city was opened to foreigners, and it quickly transformed into an international economic

hub. It offers a convenient location to a number of key feeder markets and it is within a two-hour flight time of major cities such as Beijing, Harbin, Seoul, and Tokyo. Given the explosive growth of other regional gaming destinations, it was assumed that the IEZ could assume the mantle of a super-regional gaming destination.

The zone designated for casino and resort development was a largely forested area on a bay off the coast of the Sea of Japan. A massive site, near the town of Artem, approximately 52km north of Vladivostok and 15km east of Vladivostok International Airport began to undergo a transformation. Twenty-one land parcels were delineated for development. Utilities were brought in, and roadways were carved through the forest. Concurrently, the airport was expanded and a new passenger terminal was constructed to accommodate a dramatic growth in tourism. The region's road, rail and bridge network were also upgraded.

Studies indicated that the IEZ had the potential to achieve gaming revenue levels exceeding that of Entertainment City in Manila, with the potential to reach USD \$5 billion. A Request for Proposal for integrated casino resort development was issued in 2012 and a number of international developers responded. Summit Ascent, a Hong Kong listed company, majority owned by Lawrence Ho, developer of City of Dreams, was the first international operator selected. Naga Corp, operator of the successful Naga World and Naga 2 in Phnom Penh, was also selected as were two Russian developers.

Tigre De Cristal, developed by Summit Ascent, opened in November of 2015. Initial performance was acceptable but did not approach the revenue levels originally expected. The property opened with 65 tables, 321 electronic gaming devices, and 121 lodging keys – not nearly enough to accommodate a robust foreign mass market marketing plan. It did not help that Tigre De Cristal sat alone in a forest, an hour away from Vladivostok. With no other casinos or resorts nearby, it remained a lonely place. Suncity Holdings subsequently acquired a majority share of ownership, and set about to alter the original marketing plan to better accommodate junkets.

It was only in October of 2020 that Shambala, the IEZ's second casino-resort, opened. Given continued travel restrictions, it remains a purely locals-oriented property. The Manterra Group, another Russian developer, announced plans for construction of a USD \$192 million casino resort with an estimated completion sometime in 2022. A Korean golf course developer also recently announced construction of a 36-hole course. Subsequent phases call for a 400-key hotel, housing, and family recreation, though a timeline for completion of those amenities has yet to be announced.

It has become clearly evident that building large-scale projects in this region is difficult, given government bureaucracy, and limited access to foreign construction workers. Naga's ambitious plans first called for a 279-key casino-resort opening in 2018. Site preparations commenced in 2016, but aforementioned problems with permits and labor, coupled with the pandemic pushed that opening to 2022.

Short-term, the IEZ, like all international gaming destinations, must navigate through travel restrictions imposed by the pandemic. Mid-term, the dearth of a sizable inventory of lodging

keys will limit all operators from targeting mass market gamers. Also, it has long been difficult to develop resorts in Russia.

Today, the IEZ remains a work in progress. Despite the slow process in seeing the original vision coming to fruition, there remains a lot to like about IEZ. First, its location on the Sea of Japan and close proximity to an international airport makes it an appealing destination to gamers from multiple jurisdictions including Northern China, South Korea, and Japan. The IEZ may also offer particular appeal to junket promoters. The continued and relentless pressure from policy makers on Macau's junket operators makes the Primorye IEZ particularly appealing. Suncity, now majority owner of Tigre de Cristal, is the world's largest junket promoter and can shift play to its property in Russia, should doing business in Macau become more difficult. Naga Corp has also cultivated relationships with junket promoters at its properties in Phnom Penh and can induce those promoters to send players to their new property.

While the People's Republic of China can exert economic and political influence on other countries such as Cambodia, South Korea, and the Philippines, and force them to limit marketing practices on their citizens, their influence may not hold as much power should it try to pressure the Russian Federation. Prime Minister Putin does not have a reputation for being pushed around. He also has the ability to address systemic issues that had impeded development in the past. The future of the Primorye IEZ may be brighter than what recent history has suggested.
